PERIGON

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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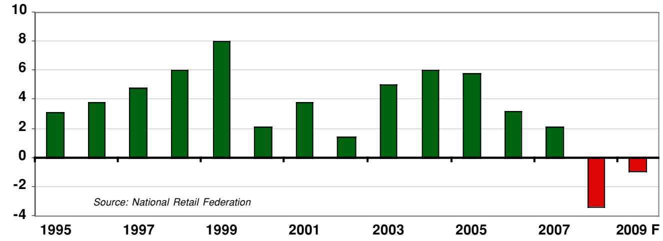
HOLIDAY SALES BAD, BUT IMPROVING

According to the International Council of Shopping Centers, sales at retail chains in the U.S. registered a 0.1% increase in September. Retail Metrics found a 1.1% increase in same-store sales, the first increase since August 2008. These two barometers suggest an improving retail climate. However, rising unemployment, deteriorating incomes & salaries and the exhaustion of unemployment benefit insurance for a large portion of the labor force doesn't make for sustainable spending.

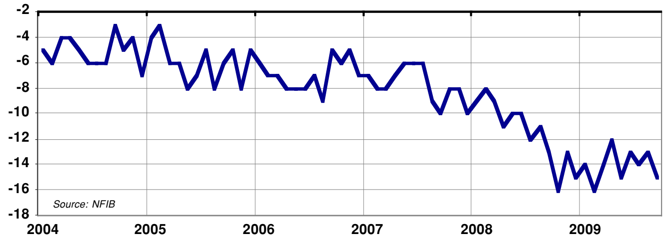
HOLIDAY RETAIL SALES



NFIB SIGNALS FRAILTY

The National Federation of Independent Business reported a nominal 0.2 point increase in its September Small Business Optimism Index — to 88.8, essentially where it has lingered for six months. According to the NFIB, 32% of small businesses polled said that weak sales were the top business problem. We believe the tightening credit market is also a major concern. The economic recovery will have a hard time gaining momentum unless lending standards ease for small businesses.

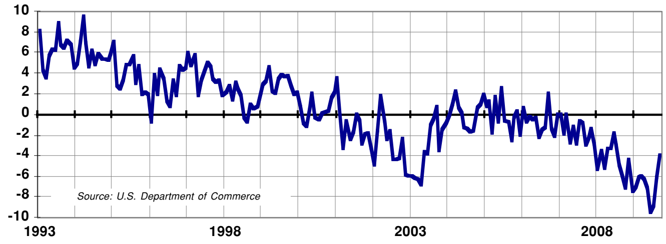
NFIB EXPECTED CREDIT CONDITIONS



RETAIL BOUNCE MAY BE TEMPORARY

Total monthly sales at retail and food services establishments fell 1.5% in September, the result of the end of the 'Cash For Clunkers' program. Excluding the auto slump, retail sales rose an impressive 0.5%. The Street interpreted this news as support for a consumer-led recovery. We think that the ex-auto increase, while desirable, will be short-lived. It is more likely the case that the gains were a function of a better-than-expected back-to-school season amid heavy discounting.

DEPARTMENT STORE SALES (Y/Y%)



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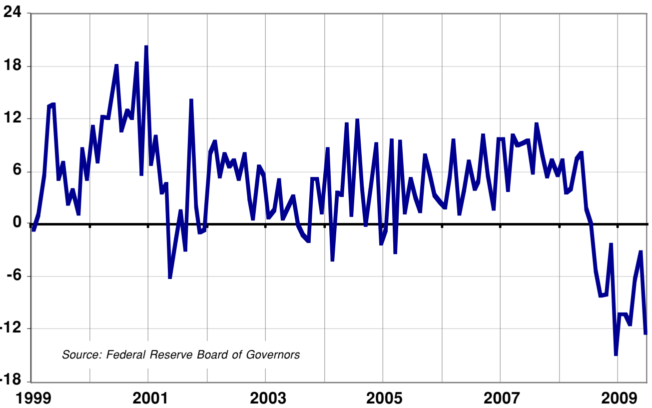
MONETARY HIGHLIGHTS

CREDIT CONTRACTS, AGAIN

The Federal Reserve reported a seventh consecutive monthly decline in total outstanding consumer credit, suggesting a serious problem for the recovery effort. During August, total consumer credit fell an annualized 5.8% — driven by a staggering 13.1% decline in revolving (or credit card) debt. The total drop was cushioned by a 1.6% decline in nonrevolving credit, which improved solely because of the 'Cash For Clunkers' program. To be sure, nonrevolving credit will not experience such desired improvement in coming months. Credit is the lifeblood of the economy; constrict the flow of credit, and the economy slows. Cut it off, and the economy collapses. We suspect the economy is operating somewhere in between these two margins.

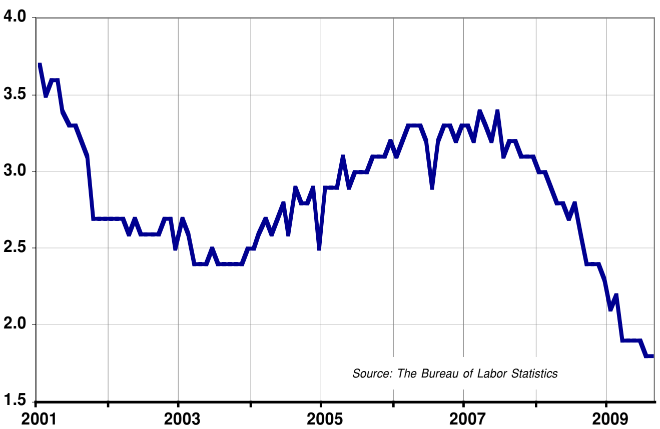
CONSUMER REVOLVING CREDIT (%)



JOB OPENINGS AT LOW

According to the Bureau of Labor Statistics, the job opening rate in the U.S. in August was 1.8%, equaling the July reading, which was the lowest since record collection began in 2000. The number of job openings in August totaled 2.4 million — a series low — and is down about 50% from the recent peak in 2007. The Jobs Openings and Labor Turnover report, or JOLTS, is a less-followed but critical examination of the hiring and firing picture in the U.S. The market seems to be cheering the improvement in weekly claims for unemployment benefit insurance, which have fallen from the highs registered back in March, but other data, like the JOLTS report and the monthly employment situation, send alarms. The economy will not improve unless businesses begin to pick up the pace of hiring.

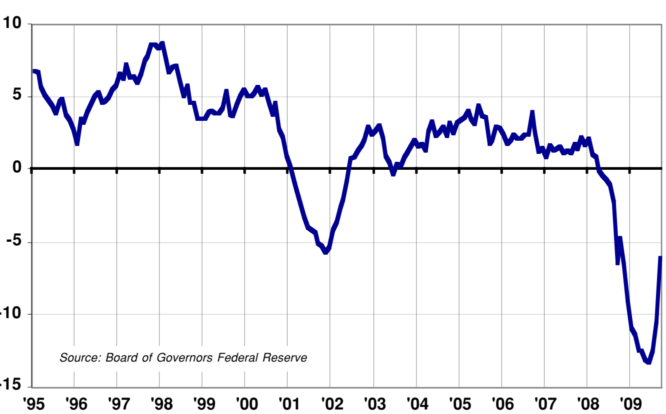
JOB OPENINGS (%)



PRODUCTION ACTIVITY RISES AGAIN

The Federal Reserve reported a 0.7% increase in its index of industrial production during September — the third consecutive monthly increase. On a year-over-year basis, industrial output was contracting by 6.1% — a considerable improvement from the better than 13% decline registered in May and June 2009. There's little doubt that the bulk of the recent gains are a function of the now-defunct 'Cash for Clunkers' program. Since we expect demand for autos to return to a pre-clunker SAAR of about 9.5 million units, the automakers should eventually have to pare back production accordingly. We believe the automakers will over-produce and build inventories in error, which ultimately may subtract from GDP in mid-2010.

INDUSTRIAL PRODUCTION (Y/Y%)

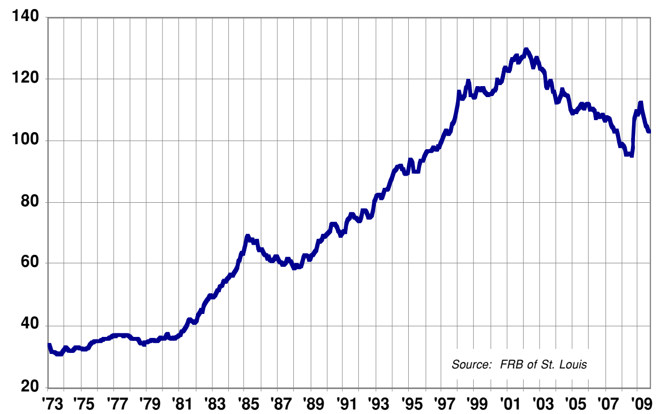


FINANCIAL MARKET HIGHLIGHTS

DOLLAR LIKELY HEADED DOWN

Year-to-date, the Greenback has declined 5% on a trade-weighted basis, versus a basket of currencies including Europe, China, Canada, Mexico and the UK, among others. In response to the financial crisis of the past year, the Fed already has expanded Reserve Bank Credit from $860 billion to $2.089 trillion. At this point, even as the economy is poised to turn, the Fed will likely increase it further to $2.586 trillion — making the Fed's ultimate exit strategy that much more difficult. Further complicating the investment outlook is the extraordinary growth of the federal deficit and the national debt. As a percentage of GDP, the national debt will rise from 75% to 100%of GDP in the four years. Given the fiscal trends, we look for further weakness in the greenback in the quarters ahead.

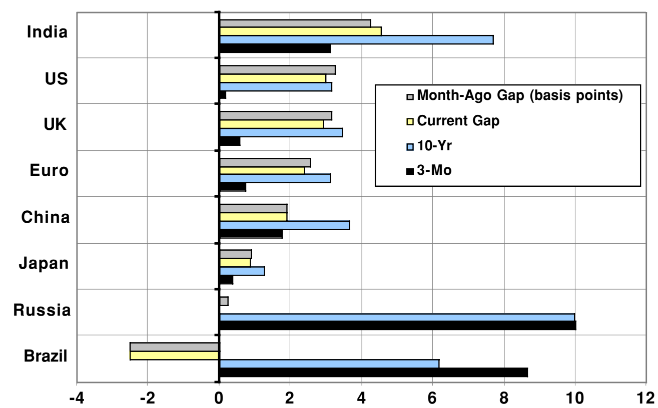
TRADE-WEIGHTED DOLLAR (INDEX, 1997 = 100)



RATES IN CHINA RISING

U.S. long-term rates are currently in the same 3.25%-3.75% range as rates in other industrialized nations, such as the Euro area, China and the UK. Interestingly, interest rates in China continue to move higher as the economy awakens and potential inflationary pressures percolate. But not all yield curves in emerging markets are signaling growth. The yield gaps in Brazil and Russia are inverted or low, as governments work to bring inflation under control. That said, short-term rates have been coming down in Russia, as the government attempts to move the economy into position to benefit from a potential boom in commodities once global growth takes hold.

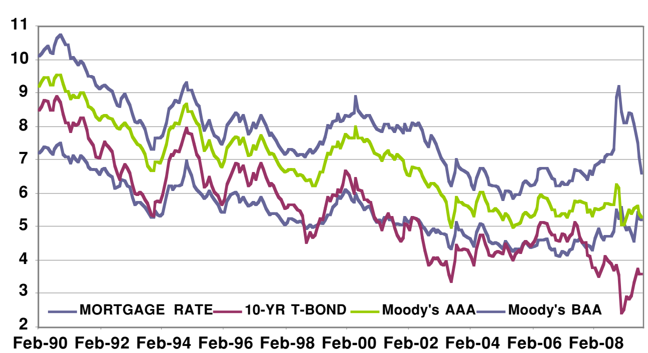
GLOBAL YIELD GAPS (%)



CORPORATE BONDS OFFER VALUE

The yield gaps between Treasuries, corporate and mortgage bonds fluctuated last month, as a dip in economic activity caused Treasury yields to decrease at a faster rate than AAA corporate or mortgage rates. BAA corporate yields continued to decline sharply. Still, the gaps are historically wide. These gaps signify that investors continue to discount the strength of the U.S. economic recovery. We continue to think that the market is overweighting the default risks of Corporate America, and believe that corporate bonds can be a good buy.

CORPORATE VS. TREASURY YIELDS



THE ARGUS ECONOMIC OUTLOOK

October 27, 2009

	2007 A				2008 A				2009 E				2010 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	1.2	3.2	3.6	2.1	-0.7	1.5	-2.7	-5.4	-6.4	-0.7	**3.2**	**0.8**	**1.8**	**1.3**	**1.3**	**1.0**
Annual:				2.5				-1.8				**-0.8**				**1.4**
Personal Consumption	3.7	1.1	1.9	1.2	-0.6	0.1	-3.5	-3.1	0.6	-0.9	**1.4**	**0.1**	**0.4**	**1.4**	**1.2**	**0.8**
Goods	4.0	0.2	3.1	3.0	-5.1	-0.5	-7.7	-10.0	2.5	-3.1	**7.2**	**-6.1**	**1.9**	**1.7**	**1.3**	**0.4**
Durables	5.5	2.1	5.2	5.5	-8.9	-5.7	-11.7	-20.3	3.9	-5.6	**11.1**	**-4.4**	**-5.6**	**4.7**	**3.7**	**1.5**
Non-Durables	3.1	-0.8	2.1	1.8	-3.0	2.2	-5.6	-4.9	1.9	-1.9	**1.1**	**0.6**	**2.8**	**2.8**	**2.3**	**1.4**
Services	3.6	1.6	1.3	0.3	1.8	0.4	-1.3	0.5	-0.3	0.2	**0.7**	**0.8**	**0.8**	**0.4**	**0.4**	**0.4**
Gross Domestic Investment	-6.0	5.7	0.8	-7.7	-7.4	-10.4	-6.9	-24.2	-50.5	-23.7	**14.2**	**4.5**	**4.4**	**1.9**	**2.6**	**1.4**
Fixed Investment	-2.6	3.6	-0.4	-4.2	-6.2	-2.7	-8.3	-20.2	-39.0	-12.5	**-16.3**	**-2.1**	**-2.2**	**-0.7**	**1.3**	**2.2**
Non-Residential	4.2	11.4	9.6	6.7	1.9	1.4	-6.1	-19.4	-39.2	-9.6	**-5.3**	**-3.5**	**-2.4**	**-1.2**	**0.3**	**1.1**
Structures	15.6	22.7	26.5	11.2	6.7	14.5	-0.1	-7.2	-43.6	-17.3	**5.1**	**-3.2**	**0.3**	**2.0**	**4.4**	**0.8**
Equip. & Software	-0.4	6.5	2.2	4.4	-0.5	-5.0	-9.4	-25.9	-36.4	-4.9	**-4.7**	**-3.6**	**-3.7**	**-2.7**	**-1.6**	**1.3**
Residential	-16.2	-12.8	-22.4	-29.5	-28.2	-15.8	-15.9	-23.2	-38.2	-23.2	**-5.0**	**3.6**	**-1.2**	**1.2**	**4.7**	**5.9**
Change in Pvt. Inventories	14.5	23.3	29.8	10.3	0.6	-37.1	-29.7	-37.4	-113.9	-160.2	**-55.0**	**-30.0**	**-5.0**	**5.0**	**10.0**	**7.0**
Net Exports																
Exports	3.5	5.2	18.5	14.5	-0.1	12.1	-3.6	-19.5	-29.9	-4.1	**-2.9**	**0.1**	**2.7**	**3.3**	**4.3**	**5.8**
Goods	3.0	6.3	14.8	12.4	4.2	14.0	-1.7	-25.5	-36.9	-6.3	**-2.4**	**-0.9**	**3.0**	**3.4**	**4.7**	**7.7**
Services	4.8	2.7	27.1	19.2	-8.9	7.7	-7.7	-4.3	-13.6	0.2	**-2.8**	**2.0**	**2.0**	**3.0**	**3.5**	**2.1**
Imports	4.3	-0.5	3.7	-3.6	-2.5	-5.0	-2.2	-16.7	-36.4	-14.7	**-6.9**	**-2.5**	**-3.9**	**4.1**	**4.7**	**5.6**
Goods	5.0	-1.0	2.8	-3.8	-3.5	-4.6	-3.7	-19.6	-41.0	-16.5	**-5.7**	**-3.1**	**-4.0**	**4.2**	**4.1**	**3.8**
Services	0.3	2.1	8.7	-2.9	3.0	-7.0	6.0	-0.9	-11.5	-7.5	**-11.1**	**0.4**	**-3.6**	**3.7**	**7.1**	**13.1**
Gov't Purch.of Goods & Svcs.	0.0	4.4	3.9	1.6	2.6	3.6	4.8	1.2	-2.6	6.7	**2.5**	**-0.7**	**0.9**	**1.5**	**1.5**	**1.8**
Federal	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	11.4	**4.3**	**-3.2**	**0.4**	**1.9**	**1.9**	**3.3**
National Defense	-7.6	8.6	10.0	0.5	8.2	7.0	19.8	3.8	-5.1	14.0	**2.4**	**-5.3**	**-1.1**	**0.8**	**0.6**	**2.2**
Non-Defense	0.4	4.9	7.9	7.6	8.0	9.7	0.1	12.6	-2.4	6.1	**8.5**	**1.2**	**3.6**	**4.2**	**4.6**	**5.5**
State & Local	3.1	2.6	0.9	1.0	-0.5	1.2	0.1	-2.0	-1.6	3.9	**0.5**	**1.0**	**1.3**	**1.3**	**1.3**	**0.8**
Final Sales of Domestic Prod.	1.8	2.9	3.4	2.8	-0.5	2.7	-2.9	-4.7	-4.1	0.7	**-0.6**	**0.0**	**1.0**	**1.0**	**1.2**	**1.1**
Final Sales to Dom. Purch.	2.0	2.1	1.9	0.4	-0.9	0.3	-2.7	-4.9	-6.4	-0.9	**-1.0**	**-0.3**	**0.2**	**1.2**	**1.3**	**1.1**
Addendum:																
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-0.8	**5.3**	**3.0**	**4.4**	**5.4**	**5.3**	**4.6**
Personal Con Exp Deflator	3.7	3.2	2.3	5.1	3.7	3.9	4.7	-5.0	-1.5	1.4	**1.9**	**1.8**	**1.9**	**1.9**	**2.2**	**2.6**
GDP Price Deflator (implicit)	4.2	2.7	1.6	2.3	1.9	1.8	4.0	0.1	1.9	0.0	**2.2**	**2.2**	**2.5**	**4.0**	**4.0**	**3.6**

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